

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2020/2021

**BAC3654 – PROFESSIONAL ETHICS**

(All sections / Groups)

20 OCTOBER 2020  
9.00 a.m – 12.00 p.m  
(3 Hours)

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### INSTRUCTIONS TO STUDENT

1. This Question paper consists of **5** pages with **4** Questions only not inclusive the cover page.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

- (a) Hot Product Company (HP) was recently wholly acquired by Hardest Product Company (HT). HT was concerned about HP's corporate code of ethics. Chief Executive of HP, Mr. Kindy explained that HP had an outstanding ethical reputation both locally and internationally. He pointed out that unlike some other employers in the industry, HP didn't employ children for labour. Mr. Kindy explained that it was forbidden by HP's code of ethics. He also explained that, in his view, employing children was always ethically wrong.

Mr. Baddy, new CEO, said that the children will be working in the relatively safe conditions at HP and the money earned will be an important source of income for the children's families.

However, Mr. Kindy said although the money was important to them, it was still wrong to employ children, as it was exploitative and interfered with their education. Children do not have the physical and mental resources to cope with employment and they were paid much less than adult workers doing the same jobs. He also said that it would estrange their loyal customers who bought from HP partly based on the terms of its code of ethics.

**Required:**

Based on the above situation, assess the belief of employing child labour from the perspectives of deontological and consequentialist ethical perspectives.

**(10 marks)**

- (b) Mimi is a junior auditor at MD Audit Firm (MD). On the recent audit of Berjaya Company (BC), a medium-sized family-run business and longstanding client of MD, when checking non-current asset purchases, Mimi noticed what she thought might be an irregularity. There was an entry of RM200,000 for a security system for an address in a well-known holiday chalet with no clear linkage to the company. On questioning this with Elena, the financial controller, Mimi was told that the system was for Mr. Martin's holiday chalet. Mr. Martin is a managing director and minority shareholder in BC. She was told that Martin often took confidential company documents with him on his holidays and so needed the security system on the property to protect them. It was because of this, Elena said, that it was reasonable to charge the security system to the company.

Elena expressed surprise at Mimi's concerns and said that auditors had not previously been concerned about the company being charged for non-current assets and operational expenses for Martin's personal properties.

Mimi told the engagement partner, Paul, senior auditor, what she had found and Paul simply said that the charge could probably be ignored. He did agree; however, he will

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ask for a formal explanation from Martin before he signed off the audit. Mimi wasn't at the final meeting but later she read the notes from the meeting stated "discussed other matter with client, and happy with explanation". When Mimi discussed the matter with Paul afterwards, she was told that the matter was now closed and that she could concentrate on her next audit task.

- (i) Briefly explain what is integrity and why integrity is compromised in the above case. Justify your answer with an example.

**(7 marks)**

- (ii) In the above case, Paul appears to have failed to conduct his role of integrity to a few parties. Identify the parties and explain why Paul failed to conduct his role to the parties.

**(8 marks)**

**(Total: 25 marks)**

## **QUESTION 2**

In a debate council scenario, Mrs. Lady Goody said that audit and assurance industry's work should always be judged by the effect it has on the public confidence on business. It was crucial that professional services such as audit and assurance should be always performed in the public interest and that there should be no material threats to the assurer's independence. She stressed that it was important that firms should not provide more than one service to individual clients. If a firm audited a client, then it should not provide any other services to the similar clients.

Mr. Gosh Meant, a retiree who had worked in audit and assurance for many years, was in the audience. He suggested that the normal advice on threats to independence was wrong. On the contrary in fact, the more services that a professional services firm can provide to a client the better, as it enables the firm to better understand the client and its commercial and accounting needs.

Mr. Gosh Meant said that when he was a partner at a major professional services firm, he got to know his clients well through the multiple links that his firm had with them. He said that he knew all about their finances from providing audit and assurance services, all about their tax affairs through tax consulting and was always in a good position to provide any other advice as he had acted as a consultant on other matters for many years including advising mergers, acquisitions, compliance and legal issues. He became very good friends with the directors of client companies. The clients also found the relationship very helpful and the accounting firms did well financially out of it.

Another audience, Mrs. Inner Shine argued that Mr. Gosh Meant represented the very worst of the accounting profession. She said that accounting was in biased to serve minority interest, was complicit in environmental degradation and could not serve the public interest

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as long as it primarily served the interests of capitalism. She said that public interest was badly served by accounting as it did not address poverty or other social injustices.

- (a) Based on the above case, it was stated “It was crucial that professional services such as audit and assurance should be always performed in the public interest.” What is the meaning of public interest? Explain your answer in the context of accounting services.  
(5 marks)

- (b) Mrs. Inner Shine said that public interest was badly served by accounting as it did not address poverty or other social injustices. Explain why professional accountants are strategically responsible to other stakeholders as well, in the light of social and environmental responsibility.  
(5 marks)

- (c) It is crucial for professional accountants to be aware of ethical threats and should avoid threats where possible. Identify **FIVE (5)** ethical threats implied from the above case. For each threat, provide a description and situation that could have initiated the threat.  
(15 marks)

**(Total: 25 marks)**

### **QUESTION 3**

At a global conference of professional leaders, Henry said that multi-jurisdictional attempts to regulate corporate governance were pointless because of differences in national culture. He depicted an attention to the Organisation for Economic Co-operation and Development and International Corporate Governance Network, saying that they were meaningless effort to harmonise the corporate governance practice. He said that in some countries, for example, they were family reasons for appointing the same person as the chairman and chief executives. In other countries, he said, separation of these roles seemed to work.

One participant, Sally, said that the role of chief executives and board chairman should always be separated to maintain the accountability to shareholders.

Other participant, Vincent, said that the right approach was to allow each country to set up its own code of corporate governance. He said that it was suitable for some countries to produce and abide by their own very structured corporate governance code, but in some other parts of the world the local culture was allowed, what he called local interpretations of the rules. He said that some cultures valued highly structured governance system while others do not care as much.

- (a) Describe roles of Board Chairman in corporate governance.

**(5 marks)**

**Continued...**

- (b) As mentioned in the case, Sally argued for and explain her belief that accountability to shareholders will be increased by the separation of the roles of Chief Executive and Board Chairman. Support Sally's argument.

**(10 marks)**

- (c) Evaluate Vincent's view that there is a need for different corporate governance codes by country, for example developed countries verse developing countries.

**(10 marks)**

**(Total: 25 marks)**

#### **QUESTION 4**

Danny Tong, an auditor for Palace Industrial was involved in a long conversation with James Leroy, the Chief Financial Officer (CFO) of Palace Industrial, on the decision of the audit fieldwork. The auditor, Danny Tong has proposed that a RM1.45 million profit adjustment be made to increase the profitability of Palace Industrial. But, the CFO is resisting, proposing that the impact on profit be put into the next year as to gain a bargaining advantage over the company's union and to negotiate a new five- year contract in future. Therefore, as an auditor, Danny Tong must decide whether the proposal is ethical or not and whether to qualify the audit report. The content of their conversation as follows:

James Leroy (CFO):	If we do record the RM1.45 million after tax adjustment, profit will be 20 percent higher than we had two years ago and 5 percent higher than reported last year. Without adjustment, profit would be close to last year's level. We are just about to enter negotiations with our labor unions. If we show that much profit improvement, they will ask for a huge raise in rates. This will result in higher labor rates than offshore competition rate. If this happens, the company will become non-competitive.
Danny Tong (Auditor):	But you really earned the profit, right? We can't just ignore it.
James Leroy (CFO):	No, I'm not suggesting to ignore the profit. But virtually all the goods making up the profit adjustment were transit at year end- so let's just record them as next year's sales and profits.
Danny Tong (Auditor):	But, James, they were all sold, title passed to the buyer when they were shipped.
James Leroy (CFO):	The customer hadn't inspected them yet. Just this once, Danny, let's put into next year. It's not really a significant amount for our shareholders, but it will trigger a much bigger problem for them if unions get a hold of the higher profit numbers. As you know about 45 percent of our shares were willed to the United Charities and they could sure benefit by higher profits and dividend in the future.

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- (a) Identify any **FIVE (5)** stakeholders and their interest impacted by the CFO's proposal.  
**(10 marks)**
- (b) Using Tucker's Ethical Decision-Making approach, assess the factors that Danny Tong, as an auditor should consider when dealing with the proposal by the company's CFO, James Leroy. Your assessment must include the conclusion of the decision making.  
**(15 marks)**

**(Total: 25 marks)**

**End of Paper.**